

Message Text

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DEPT PASS TREASURY AND FEDERAL RESERVE

E.O. 11652: N/A

TAGS: EFIN, GW

SUBJECT: GOVERNMENT ANNOUNCES PROPOSAL FOR INDIVIDUAL
INCOME TAX REFORM

1. SUMMARY. ON SEPTEMBER 12 A CABINET MEETING PRODUCED
NEW DECISIONS ON FRG TAX REFORM. THE CABINET AGREED
THAT INDIVIDUAL INCOME TAX REFORM SHOULD BE PUSHED
THROUGH THE LEGISLATIVE PROCESS IN TIME TO BE IN
FORCE BY JAN. 1, 1975. THE CABINET ALSO DECIDED THAT
INFLATIONARY PRESSURES IN THE ECONOMY WILL STILL BE
TOO GREAT FOR IT TO DECIDE AT THIS TIME TO ALLOW A
ONE PERCENT INCREASE IN THE VALUE ADDED TAX (TVA). A
RISE IN THE TVA WOULD IMMEDIATELY BE REFLECTED IN THE
COST-OF-LIVING INDEX. FINANCE MINISTER SCHMIDT, IN
HIS PRESS CONFERENCE SEPTEMBER 13, ESTIMATED THAT THIS
PORTION OF TAX REFORM, WITHOUT THE INCREASE IN THE
TTVA, WOULD MEAN TAX REVENUE IN 1976 WOULD BE SOME
DM 8 BILLION BELOW REVENUE WHICH WOULD OTHERWISE ACCRUE
UNDER THE PRESENT SYSTEM. IF THE TVA WERE TO BE RAISED
FROM 11 TO 12 PERCENT, THE DIFFERENCE IN TAX YIELD
BETWEEN THE PROPOSED AND PRESENT SYSTEM WOULD BE LESS
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THAN DM 3 BILLION. END SUMMARY.

2. THE CABINET ALSO DECIDED THAT CORPORATE INCOME TAX REFORM WILL BE LINKED TO A CAPITAL FORMATION SCHEME FOR WORKERS. MINISTER SCHMIDT SURMISED THAT IF THE CABINET MEETING NOW SCHEDULED FOR SEPTEMBER 19 PROCEEDS AS SMOOTHLY AS THAT OF THE 12TH, THE GOVERNMENT MAY BE PREPARED TO INTRODUCE THE CORPORATE TAX REFORM/CAPITAL FORMATION SCHEME FOR ITS FIRST READING BEFORE THE LEGISLATURE SOME TIME THIS YEAR. HE WOULD NOT SPECULATE ABOUT THE LIKELY DATE OF ENACTMENT OF THIS PACKAGE, BUT GOVERNMENT SPOKESMEN STRONGLY IMPLIED THAT IN ANY CASE CORPORATE TAX REFORM COULD NOT BE ENACTED IN TIME TO BECOME EFFECTIVE ON JAN. 1, 1975 WITH THE INDIVIDUAL INCOME TAX REFORM.

3. AMONG THE PROPOSALS FOR REFORM, GOVERNMENT SPOKESMEN EMPHASIZED MOST STRONGLY THE REVISIONS OF ALLOWANCES FOR CHILDREN. UNDER THE PROPOSAL, A TAX CREDIT (AN OFFSET AGAINST TAXES DUE, AS OPPOSED TO A DEDUCTION FROM INCOME) WILL BE ALLOWED AT THE SUM OF DM 50 PER MONTH FOR THE FIRST CHILD, DM 70 FOR THE SECOND, AND DM 120 FOR EACH ADDITIONAL CHILD. THIS SYSTEM COULD RESULT IN DIRECT PAYMENTS OF CASH TO THOSE WHOSE TAX CREDITS EXCEED THE AMOUNT OF THEIR TAX LIABILITY -- I.E., A FORM OF "NEGATIVE INCOME TAX."

4. IN ADDITION, THE BASIC EXEMPTION WILL BE RAISED FROM DM 1,680 TO DM 3,000; AND THE AMOUNT CHARGED FOR THE FIRST DM 16,000 OF INCOME (DM 32,000 FOR MARRIED TAXPAYERS) WILL BE INCREASED FROM 19 TO 22 PERCENT. AMONG A NUMBER OF OTHER PROPOSALS, THE GOVERNMENT PLANS TO ALLOW AN EXEMPTION TALLING DM 400 (DM 800 FOR MARRIED TAXPAYERS) TO INCOME FROM DIVIDENDS AND INTEREST PAYMENTS. MOREOVER, THE MAXIMUM ALLOWABLE FOR SUCH ITEMS AS SOCIAL SECURITY, LIFE INSURANCE AND DEPOSITS WITH BUILDING AND LOAN ASSOCIATIONS IS TO BE INCREASED TO DM 5,400 (DM 10,800 FOR MARRIED TAXPAYERS). HOWEVER, SUCH OUTLAYS WOULD NO LONGER BE DEDUCTIBLE FROM TAXABLE INCOME; INSTEAD, 22 PERCENT OF THEM WOULD BE DEDUCTIBLE FROM TAXES DUE.

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